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**CANADIAN OFFICE OCCUPANCY COSTS RISE BUT
DROP IN RANKINGS COMPARED TO OTHER COUNTRIES**

**Unusual combination of factors cause occupancy costs
in Canada to rise despite strengthening of currency**

An unusual combination of currency changes, rising leasing costs, localized market demand, and varying rates of inflation in different countries saw office space occupancy costs in major Canadian markets increase modestly in price but drop in cost-rankings compared to other office markets around the world, CB Richard Ellis Limited says in its annual report on office leasing costs.

Only two Canadian cities ranked among the top 50 for costs: Calgary ranked in 42nd place; the highest ranked Canadian city, followed by Toronto in 47th place. The rankings of other major Canadian markets were as follows: Vancouver (56), Edmonton (70), Ottawa (79), Montreal (100), Halifax (116), Winnipeg (130) and the Waterloo Region (146). The annual study by CBRE

compares operating costs (taxes, lease prices, etc. for Class A office space) for twelve months ended March 31, 2008 in 173 major markets around the world. All amounts in Canadian dollars.

The paradox was that notwithstanding a steady and substantial rise in value of the Canadian dollar against the U.S. dollar in the past two years, for various reasons both currencies did not appreciate against most other currencies. The rising Canadian dollar saw Canadian office costs compare less favourably against U.S. office costs but much better against those in many other parts of the world. Each of the Canadian markets (except Winnipeg where per square foot costs did not change from a year earlier but its market ranking dropped to 130th from 122nd) saw prices for office space rise in Canadian dollars as their rankings dropped compared with markets around the world.

For example, at the time of the survey (March 31, 2008; source Bank of Canada; foreign currency conversion to CAD) the Canadian dollar gained in value against the U.S. dollar -- up 10.8% but lost ground against the powerful Euro (down 5.4%) and Japanese Yen (down 4.9%). The Canadian currency rose against the Indian Rupee (up 4.1%), Singapore Dollar (up 1.9%) and Russian Ruble (up 1.5%). When compared with Canadian dollars the area where foreign currency appreciated resulted in operating costs increasing in terms of Canadian dollars while currencies that dropped in value declined in operating costs in Canadian dollars.

At the same time -- and because of other factors -- many overseas markets saw office operating costs rise much faster than costs in Canadian markets did. For example, while London's West End at \$307.36 remains the world's most expensive location for office costs, operating costs rose to \$307.36 from \$278.30 a year earlier, a substantial increase and sizably larger than prices in any Canadian city, but actually quite small compared to Moscow where costs nearly doubled in the past year. As a result, Moscow's ranking jumped to second

place (\$238.43) from sixth place a year ago (\$139.08), a huge increase in costs compared to increases in other well-established markets.

In the latest survey Mumbai (Bombay) rose to 4th place from 5th place (\$216.47 versus \$159.68) a year ago while Singapore (9th) with comparative costs of \$142.95 versus \$78.41 a year ago and Dubai (10th) with costs of \$131.84 in 2008 versus \$103.37 a year ago. This was the first time that Singapore and Dubai ranked in the top 10 in office operating costs.

The past year has seen many markets around the world rise in percentage costs substantially. For example, and ranking only in 23rd place, Ho Chi Minh City in Vietnam saw its occupancy costs rise by 94.4%, the largest percentage increase of any market surveyed. In terms of overall costs it ranked 23rd in 2008 versus 45th a year ago. Among the other cities that had fast growing office costs during the past year were: Moscow, up 92.7%, Singapore, up 86%, Nicosia, Cyprus up 58.0%, and Oslo, Norway, up 57.6%. The only Canadian cities to rank in the 50 fastest growing central business district markets by percentage increases were Edmonton, up 22.5% over last year and Vancouver, up 15.5%. Calgary's suburban office market rose by 16.7%.

Stefan Ciotlos, interim president of CB Richard Ellis Limited, said that it is clear that "while Canadian office costs are extremely competitive for well developed markets, office occupancy costs in many markets around the world are continuing to defy sluggish economic conditions and the credit crunch as they rise faster than global inflation. This is an unusual situation because rarely do all of these come into play at the same time to the extent they are now taking place. Conflating the overall increase is that the higher costs were dominated by emerging markets caused by both supply and demand imbalance and the depreciation of the U.S. dollar relative to local currencies. In addition, in some emerging markets Class A office space is seriously lacking.

“To date, the Canadian office market has not been impacted to the same degree as many other markets around the world. However, many of the same factors that affect other markets are going to affect our markets, too. At the end of the first quarter of the year the national office vacancy rate in Canada was 6.4% but this will undoubtedly increase as new space now being constructed comes on stream. As new space is added the competition for space will decrease with a concomitant effect on occupancy costs in some markets.”

The effect of inflation in various markets play a role in the increase in prices in many markets and this, too, has helped Canadian markets remain very competitive when it comes to price. With the exception of Japan at 1.20%, (source: central banks in each location) Canada benefited from having the lowest overall inflation rate of any of the major countries surveyed in the study. Canada’s inflation rate over the past year was 2.10%, while the US had 2.90%, the Euro Zone countries 3.60%, India 4.90%, Singapore, 7.10% and Russia, a huge 13.3%. When inflation rates are factored into the overall operating costs it shows why costs in some markets rose substantially over the preceding year ... notwithstanding the other factors that also influence office costs.